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SUBJECT: NOW WHAT? THE KIRCHNERS' OPTIONS IN POST-ELECTION
ARGENTINA

Classified By: Charge d' Affaires Tom Kelly for reasons 1.4 (B) and (D)

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¶1. (C) Summary/Introduction. More than two weeks have passed since Argentina's ruling first couple lost badly in

mid-term congressional elections. It has taken President Cristina Fernandez de Kirchner (CFK) and her husband Nestor time to process the meaning of the debacle and respond. Though the GOA has taken some significant steps over the past two weeks, including a Cabinet shuffle, the signals that the Kirchners and their associates have sent have been decidedly mixed. It may be another month before their new strategy is fully discernible.

¶2. (S/NF) In the past two weeks, Mission personnel have talked to dozens of political analysts, economists, businesspersons, and politicians about the Kirchners' likely course. Most analyses posit three possible scenarios: radicalization, reform, or the status quo. While there are serious, smart people who believe that the government will lurch simply left or right over the coming months, we, and most of our contacts, believe that the government will behave in the future much as it has in the past. We think a tepid move toward reform is more likely than radicalization because the country's ascendant forces support the former, not the latter. At the same time, we doubt that Kirchner-led reform will be ambitious. The best that can be expected from this weakened government is a "reform-lite" agenda that seeks to recapture political space without significant policy concessions. This cable examines the three scenarios in depth; identifies evidence in support of each one, as well as indicators to watch for that might clarify the Kirchners' future intentions; and evaluates the scenarios' likelihood. A separate message will critically examine another possible political outcome - that CFK will fail to reach the end of her term. End Summary/Introduction.

The Radicalization Scenario

¶3. (C) In the first (and least likely) scenario, the Kirchners react by turning hard left, attempting to reverse their fortunes through a radicalization of their regime that would propel them unambiguously into the Bolivarian camp led by Hugo Chavez. This approach is referred to locally as "deepening the model." Key elements of this approach would include:

-- Economy: Further nationalization of private companies and/or intensified attempts to manage their behavior; a partial default on sovereign debt instruments; and a confirmation of Internal Commerce Secretary Guillermo Moreno as the executor of NK's dirigiste economic policy; increased influence by labor unions.

-- Governance: Abandonment of the Peronist party in favor of "transversality," in which the Kirchners consort with any and all who offer their fealty; use of the government budget and other means to punish Peronist governors and other politicians deemed disloyal; pursuit of restrictive media legislation; increased resort to executive decrees.

-- Foreign Policy: Closer identification with Hugo Chavez and his Bolivarian allies; increasing criticism of USG policies.

Evidence of a Shift to the Left

¶4. (C) There is a significant group of observers (including political analyst Rosendo Fraga and Deutsche Bank Managing Director Marcelo Blanco) who subscribe to this school of thought. They do not lack evidence. Erstwhile Kirchner allies in the private sector, including Bank Association chief Jorge Brito and Argentine Industrialist Association head Hector Mendez, tell us that they are disgruntled with the Kirchners and lack influence on them. Their loss seems to be union boss Hugo Moyano's gain. He flexed his muscles last week, compelling the GOA to withdraw a subcabinet nomination in the Health Ministry that threatened his unions' financial interests and installing the son of his attorney as

head of Aerolineas Argentinas (septel).

15. (C) On the political front, Nestor Kirchner resigned his position as head of the Peronist Party the day after the June 28 election. Since then, rumors have proliferated of a new "transversal" approach that elevates Kirchner loyalists and hard-line ideologues like "piquetero" street activists and

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the "Carta Abierta" intellectual group. Kirchner showed up last week at an open-air meeting of "Carta Abierta," his first public appearance since his June 29 resignation as Peronist-in-chief. Last week's cabinet shuffle only strengthened the hands of the loyalists, with no new blood and the replacement of the reform-oriented Sergio Massa with Kirchnerista Anibal Fernandez as Cabinet Chief.

16. (C) Some of the GOA's post-election foreign policy moves can also be read to support the radicalization thesis. The most obvious was CFK's spur-of-the-moment trip to Central America (via the OAS in Washington) in a hastily conceived effort to restore Manual Zelaya to power in Honduras. Only Ecuador's Rafael Correa and Paraguay's Fernando Lugo accompanied CFK and OAS Secretary General Insulza on the ill-fated Mission. Wittingly or not, she seemed to side with hasty Bolivarian efforts to force the issue in Honduras rather than to wait for mediation to take its course. A more careful leader, Uruguay's Tabare Vazquez, let it be known that he declined CFK's invitation to join her aboard Tango One.

17. (C) There was one other foreign policy-related event that may suggest a leftward turn. Kirchner congressional ally Patricia Vaca Narvaja recently wrote a letter to U.S. Speaker of the House Nancy Pelosi asking for the USG to declassify all information at its disposal regarding the Argentine military dictatorship. The Kirchner government has often seemed obsessed with refighting the "Dirty War" of the 1970s and early 80s, and the request could be construed as a prelude to another rhetorical offensive against the USG for its "support" of military regimes in the region. (Alternatively, it could be a routine request consistent with the government's longstanding interest in settling Dirty War-related human rights cases.)

The Verdict: "Red Dawn" Unlikely

18. (C) Despite all of the above, we view the radicalization scenario as the least likely of the three paths that the government will take, with a probability of less than five percent. Even if the Kirchners prefer this approach in their heart of hearts, circumstances in the wake of the election give them virtually no margin to implement it. Immediately after the election, many of the most powerful forces within the governing coalition began clamoring for more moderate policies, a more inclusive approach to governance, and (especially) a larger share of government finances. These Peronist governors and mayors fared far better than Nestor did, and they are in no mood to take orders from the Kirchners. As a source close to Buenos Aires Governor Daniel Scioli told the CDA, "There are no captive politicians after these elections." The private sector is similarly emboldened. As Industrialist Association (UIA) chief Hector Mendez told us that "deepening the model won't happen. We just won't allow it." Finally, the anti-Kirchner opposition is clearly ascendant. These groups will fight GOA efforts to march Argentina further to the left. Given the current political climate, they should have the votes to hold the Kirchners at bay even before the new Congress is seated in December.

19. (C) Nor do we believe that Argentina's foreign policy is becoming more Bolivarian. The GOA has become much less eager to criticize the USG directly since Barack Obama became

President. CFK wears her affection for our Commander-in-Chief on her sleeve. In addition, as mentioned in the next section (para 16), there is new evidence of concrete GOA efforts to support U.S. foreign policy objectives in multilateral fora, at least behind the scenes.

¶10. (C) There is another external factor that makes Argentina's embrace of Bolivarian politics unlikely -- the growing influence of Brazil here. The local IDB rep, Brazilian Daniel Oliveira, told econoff recently that "Argentina has become as important to Brazil as Mexico is to the United States." With a US\$31 billion trade relationship and more than US\$10 billion in Brazilian investment flowing into the Argentina economy since 1997, Brazil is strongly engaged here, and is not shy about defending its interests. The local press has reported that Lula worked the phones in July 2008 to prevent the Kirchners from abandoning power in the wake of their failed attempt to push a tax increase on agricultural exports through Congress. Lula and his associates will remain an important moderating influence on the Kirchners.

¶11. (S/NF) Although we think this scenario's likelihood is
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limited, it bears mention that it is also the most likely to lead to political crisis, confrontation, escalating violence, and CFK's failure to reach the end of her term. We explore how such a downward spiral might play out, and the likelihood of this calamitous scenario, in a separate report.

Scenario Two: The Kirchners Embrace Reform

¶12. (C) Some observers expect (and many more hope) that the Kirchners will reinvent themselves, pursuing a reform-minded agenda that mollifies Peronist governors, defangs the opposition, and wins over new foreign friends. A larger group believes that a rebellious Peronist establishment will put them on that course, whether they like it or not. Key policy features of such an approach would include:

-- Economy: Interventionist-in-Chief Guillermo Moreno is dismissed, clearing the way for a normalization of the state statistical institute INDEC (and thus a return to methodological integrity in the national accounts); GOA makes deals with the Paris Club and private bondholders left out of the 2005 debt swap deal and normalizes its relationship with the IMF, starting with an Article IV Consultation; progress on outstanding ICSID judgments against Argentina.

-- Governance: CFK rules more inclusively, coordinating policies with governors and looking for common ground with the opposition in the current and next Congress. Government rolls back agricultural export taxes as a down-payment on its new conciliatory approach. NK reduces his public profile.

-- Foreign Policy: Concrete steps benefiting the United States and non-Bolivarian governments in the hemisphere, coupled with distancing from Chavez and his allies.

¶13. (C) Proponents of this scenario's likelihood have plenty of recent evidence to back them up. There is clearly ferment in the government's approach to economic policy, with a new Economy Minister on board, powerful (and heretofore pro-Venezuelan) Planning Minister Julio De Vido now reputed to be an advocate of pragmatic moderation, and prestigious, market-oriented advisors (specifically, former Central Banker and IMF official Mario Blejer) said to be poised to join the government. The government sacked its statist, corrupt Transportation Secretary Ricardo Jaime days after the election, and rumors abound that Moreno, the icon of "market repression" economics, has become such a political liability that his days in the government are numbered. Well-placed sources within the government confirm that change is in the

air. Top Kirchner aide Carlos Zannini indicated that the GOA would focus almost exclusively on changes on the economic policy front this month, and influential Buenos Aires Province Vice-Governor Alberto Balestrini told the CDA last week that the GOA would roll back agricultural export taxes on wheat and corn soon.

¶14. (C) Nor is there any doubt that the political center of gravity has shifted dramatically in Argentina since the election. Most of the country's 16 Peronist governors have reportedly expressed their desire for market-oriented changes, at least privately. Some former allies, like ambitious Chubut Governor Mario Das Neves, have broken ranks with the Kirchners and openly criticize them. Even loyalist governors like Chaco's Jorge Capitanich have publicly called for straightening out INDEC and other changes. Faced with this onslaught from ostensible allies, CFK announced on July 9 (as she has before) that she would convoke the country's main political and private sector leaders to a process of dialogue. The following week, she modified the proposed process to accommodate opposition demands.

¶15. (C) The GOA's political position is further weakened by the prospect that it will suffer defections from its ranks in the current Congress. Of course, the next Congress that takes office December 10 will be more independent, with the government losing majorities in both chambers. This will make it easier for reform-minded groups to push the Kirchners into accepting elements of their agendas. As Balestrini told us, the GOA will need to renegotiate and compromise in order to rule.

¶16. (C) The GOA has taken a few subtle foreign policy moves that could be construed as harbingers of a closer relationship with the United States. After he received a call on the issue from Secretary Clinton, FM Jorge Taiana convinced CFK to change the voting instructions of the Argentine delegation to the International Atomic Energy Agency, which enabled U.S.-supported candidate Yukiya Amano

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to win election after a month-long impasse. In a more prosaic but perhaps symbolically important development, the CDA received a warm note from CFK expressing regret for her failure to attend the Mission's Independence Day celebration and offering best wishes. We had never before received such a note from either Kirchner.

The Verdict: Don't Bet On A New Leaf

¶17. (C) While the reform scenario has gained credence over the past week, driven primarily by economic policy news and rumors, we remain skeptical that Nestor and Cristina will turn into a latter-day incarnation of Ozzie and Harriet, dispensing moderation and good sense wherever they turn. Neither Kirchner seems inclined to admit error, even tacitly, by shifting course so abruptly. A senior official at the Central Bank told us that Nestor will resist reformist policies because they would be interpreted as a sign of his weakness and even irrelevance. If changes come, he argues, they will come at a time of his choosing. A reformist path may also strike the Kirchners as politically risky, distancing them from their most fervent supporters in the working class, poor "villas," and intelligentsia in deference to sectors that are at best disloyal and at worst openly hostile to them.

¶18. (C) The "forced reform" variant of this scenario seems somewhat more likely, but not by much. For it to work, one of two things must happen. Either the Peronist governors will need to set aside their rivalries and effectively advocate for a more robust approach to reform than seems likely, or the bickering, often inept opposition will need to get its act together and engage the Kirchners as a united

front. Much depends, for example, on whether dissident Peronists coalesce behind Senator Carlos Reutemann, who has emerged as a frontrunner for the Peronist presidential nomination in 2011, and whether Vice President Julio Cobos can gain some traction in pulling together support from the Radicals, Civic Coalition, and Socialists. If either of these two groups works cooperatively over the coming two months, it is possible that positive changes can come to Argentina before CFK leaves office in 2011. We don't think that will happen, however, and estimate the two reform scenarios' combined probability at no more than twenty percent.

Scenario Three: Muddling Through

¶19. (C) In the third scenario, the Kirchners do not definitively opt for reform or radicalization. Maintaining the short-term focus that has characterized their six years in power, they muddle through as best they can, trying to salvage their political futures or at least to reach the end of CFK's term in 2011. There may be some positive changes in this scenario -- one analyst dubs it "reform-lite" -- but the electoral setback does not ultimately result in a dramatic course correction. In the words of economist Nicolas Dujovne, the Kirchners will pursue a strategy of "minimum reforms, but without collapse." Under this scenario, the following might happen:

-- Economy: Lots of policy zigzagging without a clear direction; Moreno stays, or leaves and is replaced with another hard-liner; new, "reform-minded" Economy Minister Boudou changes little, like the Cabinet's previous reformist also-rans Martin Lousteau and Sergio Massa.

-- Governance: Cooption of some Peronist governors and mayors, punishment of others considered to be disloyal. Stalemate on legislation in Congress. Top-down dialogue process initiated without intention to compromise.

-- Foreign Policy: Some private gestures to the USG, but little movement towards resolution of long-term sources of friction; no palpable distancing from Chavez's camp or modification of the GOA's "independent" foreign policy.

For Evidence That Nothing Has Changed, Buy a Newspaper

¶20. (C) This status-quo scenario is the clear frontrunner among our contacts. There is fresh evidence to support it in every day's harvest of newspapers. The two dominant news stories since the election, CFK's botched trip to Honduras and the GOA's response to the H1N1 epidemic here, both

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suggest that the government's improvisational style and closed decision-making process remain intact. This in turn will mean that GOA policies are more likely to develop in response to the first couple's whims than to a coherent design. It also means that the government bureaucracy is unlikely to save the Kirchners from the consequences of their impulses. For example, CFK went ahead with her ill-advised trip to Washington and Central America earlier this month against the advice of her Foreign Ministry. She ended up achieving no more than Nestor did in December 2007 when he participated in the Chavez-organized "bungle in the jungle" in Colombia, in which Nestor and others sat helplessly in the jungle for days in the futile hope that the FARC would deliver hostages to them.

¶21. (C) The opacity of decision-making at the GOA's apex means that the government will continue to meander hither and yon, regardless of whether or not it has definitively chosen a particular direction. The GOA's performance in dealing

with H1N1 flu is a case in point. Although many public health officials in the GOA are working around the clock to contain the challenging problem, the government's lack of internal communication made it look hapless. For example, upon alighting on Argentine territory after her Central American jaunt, CFK denounced "fear-mongering" media reports of 100,000 flu cases in Argentina -- information that had come from her own health ministry. (The 100,000 number referred to all flu cases, not just H1N1 flu.) The poor coordination continues. Over the past weekend, the Mission found itself in the middle of an unsightly (non-public) dispute between the federal Ministry of Health and its counterpart in the Province of Buenos Aires (governed by Kirchner ally Daniel Scioli) over the destination of CDC-donated Tamiflu doses, with each accusing the other of bad faith and subterfuge.

The Verdict: More of the Same, But Good Can Happen

122. (C) Like most of our contacts, we think that this untidy scenario is the most likely outcome. We don't expect the Kirchners to change, but given the magnitude of their defeat in the mid-terms, we don't expect the Peronist establishment or the opposition to back down, either. The Kirchners may even be able to prevail if their rivals and opponents fail to unite. Prolonged stalemate on most of the "big" policy issues seems the most likely outcome of a collision between a closed, reform-adverse, and politically weakened regime and disparate political groups that believe that they have a mandate for reform.

123. (C) This does not mean, however, that no positive change in this scenario is possible. The Kirchners could take steps for ulterior motives that turn out to have beneficial consequences. This has already happened in the post mid-term era, when Transportation Secretary Ricardo Jaime departed office soon after the election. One of our contacts characterized the Kirchners' willingness to cut the notoriously corrupt official loose as the beginning of a purge designed to distance them from the shadiest elements of their regime in an effort to reduce the likelihood that they themselves could end up in prison. Whatever the reason, Jaime's removal could lead to policy improvements in the transportation sector.

124. (C) Nor does it mean that the USG should ignore the Kirchner regime or give up on it as hopeless. CFK may not have a grand scheme in mind for her remaining two years in power, but she clearly would like to associate herself with President Obama's star power. The intensity of this desire opens all kinds of opportunities for us, as it did in Argentina's decisive IAEA vote. As the Kirchners struggle for political relevance or at least survival, they will be looking for success stories -- and we should be on guard for opportunities to induce them to do the right thing. Even if the Kirchner government is unlikely to resolve every single outstanding bilateral issue to our satisfaction, we think that cultivation of the GOA -- CFK in particular -- can lead to beneficial outcomes for U.S. interests bilaterally, regionally, and multilaterally.

KELLY